REDACTED – FOR PUBLIC INSPECTION

Hill Country

Hill Country Telephone Cooperative, Inc.
P. O. Box D
220 Carolyn
Ingram, Texas 78025-0768

FILED/ACCEPTED

APR 18 2011

Federal Communications Commission
Office of the Secretary

April 18, 2011

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109 April 18, 2011 Comments of Hill Country Telephone Cooperative, Inc.

Dear Ms. Dortch:

Hill Country Telephone Cooperative ("Hill Country") submits this request for confidentiality pursuant to the September 16, 2010 Protective Order in CC Docket No. 01-92, WC Docket Nos. 05-337, 07-135 and 10-90 and GN Docket No. 09-51.[1] Hill Country seeks confidential treatment of certain data contained in attachments to the above-referenced Comments.

Pursuant to paragraph 4 of the Protective Order, non-redacted and redacted versions are filed herewith. Each page of the non-redacted submission is marked "CONFIDENTIAL INFORMATION – SUBJECT TO PROTECTIVE ORDER IN CC DOCKET NO. 01-92, WC DOCKET NOS. 05-337, 07-135 AND 10-90 AND GN DOCKET NO. 09-51 BEFORE THE FEDERAL COMMUNICATIONS COMMISSION". Each page of the redacted submission is marked "REDACTED - FOR PUBLIC INSPECTION". The redacted version is also being filed this date via the FCC's Electronic Comment Filing System.

Please contact the undersigned with any questions.

Respectfully submitted,

/s/ Delbert Wilson

Delbert Wilson, General Manager
Hill Country Telephone Cooperative, Inc.
P. O. Box D
220 Carolyn
Ingram, Texas 78025-0768

Attachments

cc: Lynne Hewitt Engledow, Wireline Competition Bureau (two copies non-redacted)

[1] *See Developing a Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, Protective Order, 25 FCC Rcd 13160 (WCB 2010)

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Federal Communications Commission
Office of the Secretary

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
A National Broadband Plan for Our Future	)	GN Docket No. 09-51
	)	
Establishing Just and Reasonable Rates for Local Exchange Carriers	)	WC Docket No. 07-135
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
	)	
Developing a Unified Intercarrier Compensation Regime	)	CC Docket No. 01-92
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Lifeline and Link-Up	)	WC Docket No. 03-109

COMMENTS OF

HILL COUNTRY TELEPHONE COOPERATIVE, INC.

April 18, 2011

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Hill Country Telephone Cooperative, Inc. ("Hill Country") is a small, rate-of-return regulated incumbent local exchange carrier located in the rugged, rural areas near Kerrville, Texas. We are privileged to have been able to make significant investments to provide advanced telecommunications and broadband services to our members/shareholders, and have been serving our rural communities for the past 60 years. Much of that investment was made possible through loans that were based on the reasonable assumption that revenues generated from rate-of-return regulation, under which we have operated since inception, would continue to support that investment. This model has proven successful, enabling deployment of broadband services in rural areas of the United States, while price cap regulation (sometimes known as incentive regulation) has proven to create the so-called "rural-rural divide." Now, in an effort to close the gap, the Federal Communications Commission ("FCC" or "Commission") proposes to reduce the distance between the "haves" and the "have nots" in such a manner that we will all be made "have nots."

We believe this is the wrong direction and encourage the FCC to rethink its Universal Service Fund ("USF") reform proposals. At a minimum, if the Commission must move forward with unwinding the current USF programs, we encourage the Commission to do so in such a way that honors the financial commitments that rural carriers of last resort have made to their lenders and their communities by providing an extended transition period such that loans made based upon rate-of-return financial assumptions will be repaid before any major reforms begin. For Hill Country, based on our current CoBank loan agreements, that means we would fail our loan commitment for the term of the loan.

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
A National Broadband Plan for Our Future	)	GN Docket No. 09-51
	)	
Establishing Just and Reasonable Rates for Local Exchange Carriers	)	WC Docket No. 07-135
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
	)	
Developing a Unified Intercarrier Compensation Regime	)	CC Docket No. 01-92
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Lifeline and Link-Up	)	WC Docket No. 03-109

COMMENTS OF

HILL COUNTRY TELEPHONE COOPERATIVE, INC.

Hill Country Telephone Cooperative, Inc., ("Hill Country" or the "Cooperative") is filing these comments in response to the Federal Communications Commission ("FCC" or "Commission") Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking released February 9, 2011 seeking comment on the National Broadband Plan and Universal Service Fund ("USF") reform.[1]

[1] *Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing an Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Linkup*, WC Docket Nos. 10-90, 07-135, 05-337, 03-109, GN Docket No. 09-51, CC Docket Nos. 01-92, 96-45, Further Notice of Proposed Rulemaking, FCC 11-13 (rel. Feb. 9, 2011), ("USF-ICC Reform NRPM").

I. WHO WE ARE

On February 13, 1951, a small group of people gathered at the Gillespie County Agriculture Building in Fredericksburg, Texas to organize a rural telephone cooperative under the Texas Telephone Cooperative Act. On May 14, 1951, the group applied to the Texas Secretary of State for a charter and, in October 1951, the corporate seal and cooperative bylaws were adopted. Hill Country Telephone Cooperative, Inc. was formed and in August 1953 the board of directors applied for a loan under the Rural Electrification Administration ("REA") to finance construction and operation of a telecommunications network to initially serve approximately 975 members.

While Hill Country has grown significantly in both size and the scope of the services we offer to our members, we proudly continue to honor the same regulatory compact that we did when we first obtained low-interest REA funding; to provide high-quality telecommunications services to our members. Hill Country is an Eligible Telecommunications Carrier ("ETC") and a Carrier of Last Resort ("COLR") throughout our study area. Our commitment to providing service universally to our members dates back 60 years – decades before the existence of a Universal Service Fund ("USF") - and we hope to be able to continue to meet our members' telecommunications and broadband service needs for at least the next 60 years.

As a small, rural member-owned incumbent local exchange carrier ("ILEC"), Hill Country currently provides service to 15,121 customers in the rugged Texas Hill Country near Kerrville. Our customers include numerous community anchor institutions such as schools, libraries, health care facilities, local, state, and federal law enforcement agencies. We provide vital services to agribusinesses and wireless service providers who rely on our network to meet their commercial needs. For most, if not all, of these customers, we are the only reliable source for advanced telecommunications and information services within our community. Our customers/shareholders are located in 15 exchanges which are in 14 different counties, covering over 2,900 square miles. For the entire study area, Hill Country's customer density is approximately 5.3 customers per square mile, but many of our rocky, rural exchanges are much less densely populated.

With 106 employees, we are one of the largest employers within the community. As a member-owned utility, we are governed by a democratically-elected board of directors who represent the interests of their constituents/members. Hill Country's presence in the community helps to support more than 30 worthy community organizations throughout our service area with donations and monetary gifts, including activities such as mobile computer classes, economic development conferences, Medina Children's Home, and Schreiner University. Our management, board of directors, and shareholders/customers are all contributing members of the community where Hill Country provides service.

Recognizing the importance of broadband availability for rural economic development, we obtained a $30 million loan from CoBank to bolster our deployment efforts.[2] We installed two new Nortel CS 1500 soft switches, 426 miles of fiber optic cable with approximately 250 digital loop carriers placed strategically to shorten our member loop lengths to approximately 7,000 feet. With these shortened loops, we are able to offer our members bandwidth up to 17 – 20 Mbps, thus allowing us to deliver an array of new services and products to our members.

[2] *See* Letter from Sarah Tyree, Vice President, Government Affairs, CoBank to Marlene H Dortch, Secretary, FCC, CC Docket No. 96-45 (filed April 5, 2011)... (explaining CoBank's approach to financing rural exchange carriers and that it "views elimination of rate-of-return regulation for our rural local exchange carrier customers as a serious threat to their ability to continue to obtain access to debt capital").

In an effort to reach even more of our members with broadband services, we applied for and were awarded a combined grant/loan of $12,234,217 from the Rural Utilities Service ("RUS") Broadband Infrastructure Program ("BIP") in 2010. $8.56 million of the funding was a grant and $3.67 million was a 25-year loan from RUS. The project includes both fiber to the premises and fiber to the node with a total of 151 miles of fiber optic cable and roughly 29 digital loop carriers to shorten customer loop lengths in an effort to increase both broadband availability and speeds. We anticipate completing this project around the middle of 2013.

The loan from CoBank and the loan portion of the RUS BIP funding were made based on a business model that included USF revenues under the current rate-of-return regulatory program. As demonstrated herein and as evidenced by the attached 7-year financial projection,[3] if the FCC were to adopt the near-term proposals set forth in the USF-ICC Reform NRPM, Hill Country would fail to meet our CoBank loan covenants in 2012 which would have a severe negative impact on the Cooperative and the rural communities that we serve. It would also immediately cause the Cooperative to fail Times Interest Earned Ratio ("TIER") which is the financial metric RUS used to evaluate the financial viability of its stimulus loan award. Given this fact, the Cooperative is currently reconsidering accepting the BIP stimulus award. This would mean that projects targeted with the stimulus award would be jeopardized which is contrary to the intent of the American Recovery and Reinvestment Act and, further, subscribers would suffer harm. Accordingly, if the FCC were to adopt the proposals in the USF-ICC Reform NPRM, it would have a devastating impact on our ability to provide high-quality

[3] The 7-year financial projection contains proprietary pricing and other data and thus has been filed pursuant to the Protective Order. *See Developing a Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, Protective Order, 25 FCC Rcd 13160 (WCB 2010)

telecommunications and broadband services to individuals and anchor institutions in rugged Texas Hill Country.

II. TRANSITION PERIOD SHOULD BE EXTENDED TO ALLOW LOAN COMMITMENTS TO BE KEPT

Hill Country appreciates the Commission's decision to take a long, hard look at the current USF programs to ensure that the mechanism is specific, predictable, and sufficient to continue to meet the goal of providing advanced telecommunications and information services at just, reasonable, and affordable rates to consumers in all regions of the Nation.[4]

Hill Country is no newcomer to the Commission. Just last month, I met with members of the Wireline Competition Bureau to discuss the devastating impact that the proposed USF reforms would have on our operations.[5] We have even provided our financial records to FCC staff members in an effort to help the staff better understand our operations and the importance of rate-of-return regulation as well as sufficient and predictable universal service support revenue streams. With approximately 14.8% of our revenues coming from federal USF support, we are extremely concerned about some of the FCC's reform proposals.

While the current funding mechanism may not be perfect, there can be little argument that rate-of-return regulation assisted by universal service support has allowed Hill Country (and other rate-of-return ILECs like it) to deploy advanced telecommunications and information services to customers located in rural areas of the Nation.[6] Without such programs, we would

[4] 47 U.S.C. § 254(b).

[5] *See* Letter from John Kuykendall, John Staurulakis, Inc., to Marlene H Dortch, Secretary, FCC, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45 (filed March 22, 2011) ("Hill Country *Ex Parte* Letter").

[6] *See USF-ICC Reform NPRM*, ¶ 170.

not have been able to make the necessary investment required to build and maintain a network to serve our rural, high-cost customers.

As further discussed below, if the FCC makes the USF changes that it has proposed in the USF-ICC NPRM, Hill Country will default on existing loans made for outside plant already in service. As such, if the FCC decides to make significant USF reforms, it is imperative that the FCC provide a transition period that is sufficiently long enough to allow rate-of-return ILECs who have made significant investments in rural networks to avoid defaulting on existing loans, including RUS BIP loans.[7] For Hill Country, our current CoBank loan will not be paid in full until 2020, but if the FCC proceeds with the USF reforms as proposed, and further addressed below, we will default on the loan in 2012.

III. FINANCIAL IMPACT OF USF PROPOSALS

In the USF-ICC Reform NPRM, the FCC proposes significant changes to the High Cost Loop Support ("HCLS"), Local Switching Support ("LSS"), Interstate Common Line Support ("ICLS") and Safety Net Additive ("SNA") components of the federal USF program. Notably, for Hill Country, the USF-ICC Reform NPRM proposes the following changes as further detailed in Attachment 1:

- One proposal would remove all corporate operations expense recovery in HCLS, LSS and ICLS while another would reduce the support percentages for HCLS from the current percentages of 65% and 75% to 55% and 65%, respectively. The combined effect of these two proposals, taking into account the decrease that

[7] *See* Letter from The Hon. Timothy V. Johnson, et al., to The Hon. Julius Genachowski (March 31, 2011) ("The FCC should implement these reforms in a way that manages the providers' transition.")

would occur in the National Average Cost Per Loop ("NACPL"),[8] would be a reduction in HCLS of $161,169, a reduction in LSS of $63,305 and a reduction in ICLS of $555,640 for a total reduction of $780,114 in USF.

- A third proposal would eliminate safety net additive support immediately, or implement a phase-down over possibly three years.[9] An immediate elimination of safety net additive support would cause our annual net revenues to decrease $432,120.
- In sum, the annual revenue impact on Hill Country of these three proposals is a reduction of $1,212,234, or a 13.65% reduction in our current USF support levels.

A fourth proposal would eliminate LSS immediately. As show in Attachment 1, assuming that the FCC does not eliminate LSS entirely, but merely eliminates the recovery of corporate operations expenses from the LSS program, $576,808 in LSS that the Cooperative would otherwise receive is reduced by $63,305. Eliminating LSS entirely thus would mean that the Cooperative would lose an additional $513,503 in USF, increasing the total amount of reduction to $1,725,737.

As demonstrated below, the immediate loss of this significant amount of funding would not only destroy our ability to continue providing reliable telecommunications and broadband services to our rural customers but also would cause us to default on our current loans. Hill Country echoes the concerns recently raised by 30 United States Senators when they stated, "we

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[8] Attachment 1 assumes a decrease of 27 percent to NACPL.

[9] *See* USF-ICC Reform NPRM, ¶ 185.

believe these reform proposals must strike a balance to protect the investments that have already occurred and the need to overhaul the programs."[10]

IV. HILL COUNTRY'S PROJECTED FINANCIAL SOLVENCY

In an effort to analyze the impact of the USF-ICC Reform NPRM on our future operations, we prepared the attached 7-year financial projection to evaluate our ability to remain compliant with the debt covenants set forth in Hill Country's loan agreement with CoBank.[11] As discussed earlier, Hill Country applied for these loans with the reasonable presumption that existing support mechanisms would be used for legacy investment. The accompanying balance sheet, statements of income, and cash flows represent audited financials for the years ending December 31, 2008 and 2009. The year ending December 31, 2010 uses unaudited 2010 financials. The projected 7-year period encompasses 2011 – 2017.

Based on our forecasts, assuming the Commission moves forward with the proposed changes to the existing USF program as contained within the USF-ICC Reform NPRM, we will fail to meet our CoBank loan covenants in 2012. Failure to meet a loan covenant imposes an additional burden on our company and thus our customers. CoBank would immediately apply a penalty interest rate, as agreed to in our loan agreement. Penalty interest was not assumed for modeling purposes; however, its assessment would immediately tie up cash that could otherwise be invested in broadband deployment. In addition, the elimination of corporate operations expense from HCLS, LSS, and ICLS has a significant and almost immediate detrimental effect on our operating cash flow. The elimination of the SNA support also reduces free cash flow and thus impacts our profit/loss statements as well as investable cash. Based on these projections,

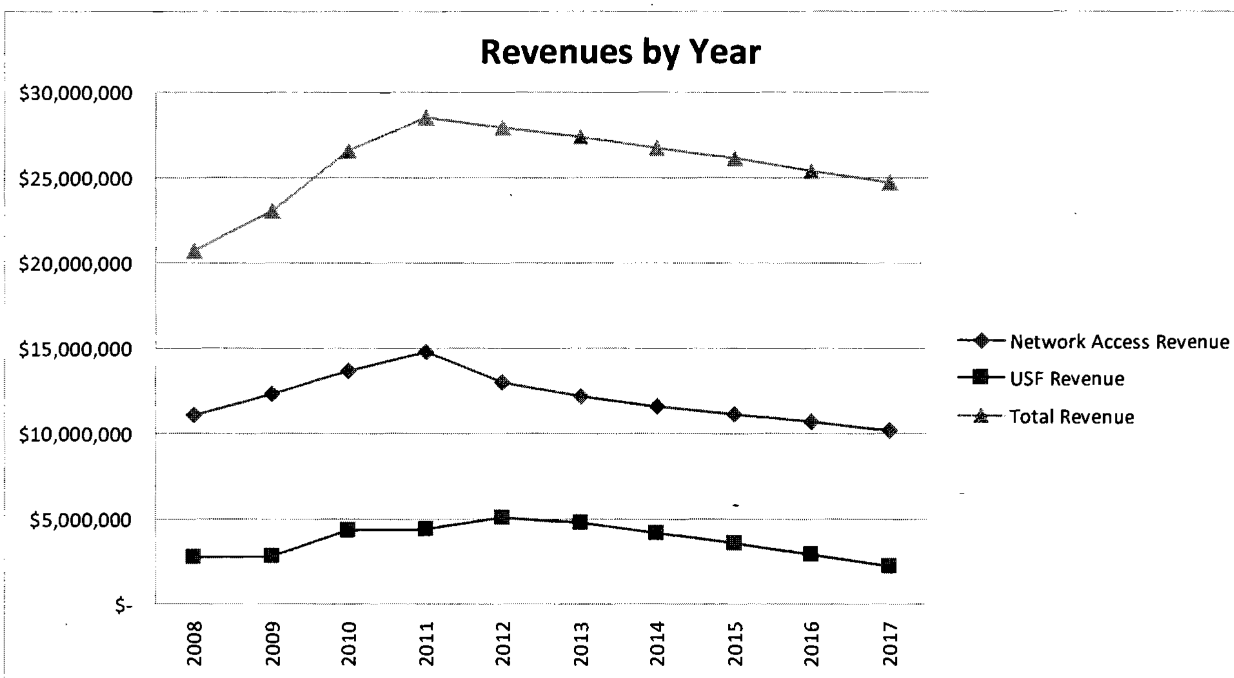
[10] *See* Letter from Sen. Mark Begich, et al., to The Hon. Julius Genachowski, (Apr. 6, 2011).

[11] *See* Attachment 2.

Hill Country is reconsidering accepting the BIP stimulus award because it will immediately cause us to fail TIER if the Commission adopts the proposed USF changes.[12]

Figure 1 represents Hill Country's projected revenues over the 7-year period under the current USF reform proposals contained in the USF-ICC Reform NPRM. As evidenced by the line graph, revenue decline is mainly attributable to the reduction in access support and HCLS. HCLS is trending toward zero by the end of the projection period.

FIGURE 1



[12] As noted above, TIER is the financial metric RUS used to evaluate the financial viability of its stimulus loan awards.

Figure 2 represents Hill Country's debt to cash flow ratio over the projection period. The debt to cash flow ratio provides an indication of a company's ability to cover total debt with its yearly cash flow from operations. CoBank wrote the loan covenants so that the maximum debt to cash flow ratio would decline over time (as seen from 2009 – 2012). CoBank premised these ratios on existing support mechanisms remaining in place for the duration of the loan. When the blue line is above the red line, we fail the debt to cash flow covenant. Based on our assumptions, we would fail in 2012 and continue to fail until 2014.

FIGURE 2

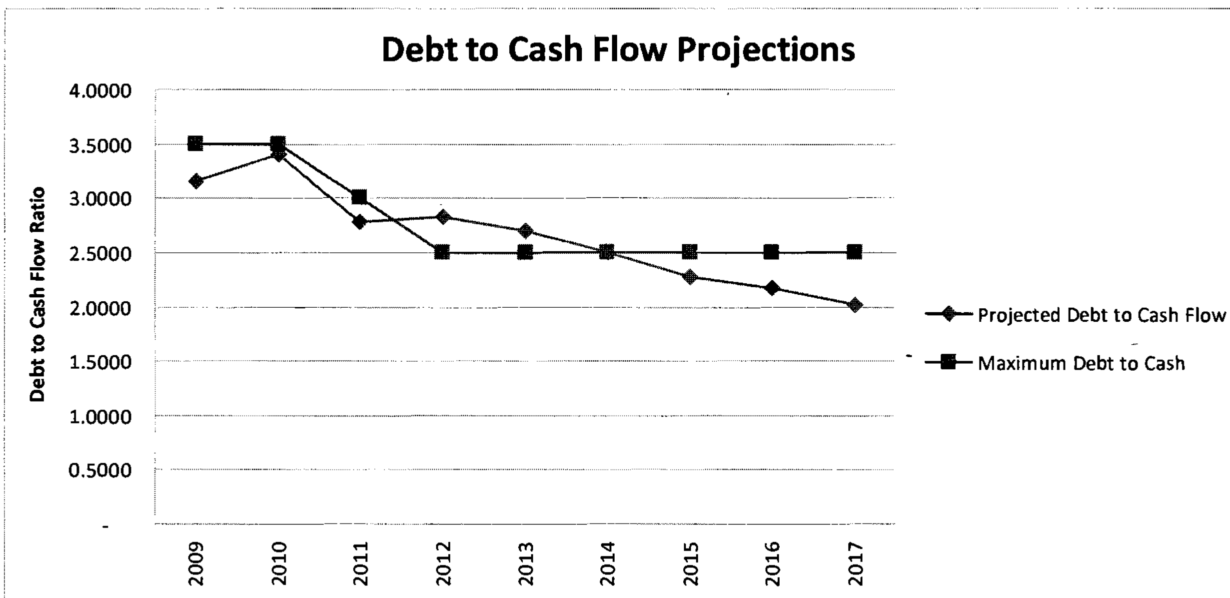
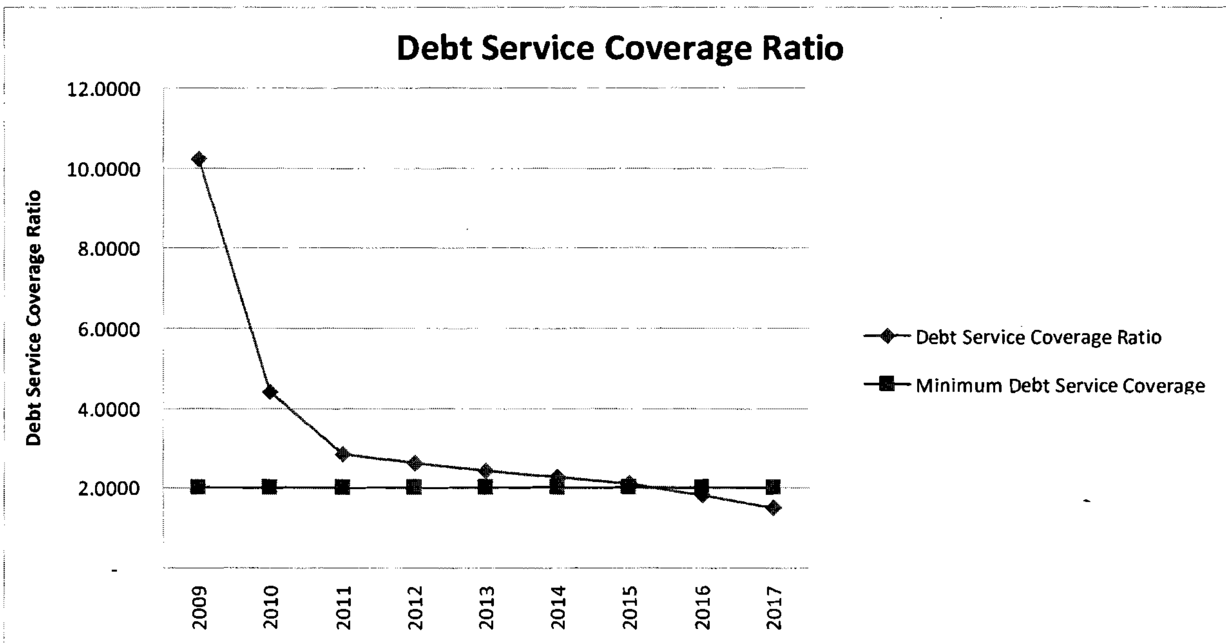


Figure 3 represents Hill Country's Debt Service Coverage Ratio ("DSCR"). DSCR measures the ratio of cash available for debt servicing to interest, principal, and lease payments. When the blue line falls below the red line, we would be in violation of the DSCR covenants in our CoBank loan agreement. Figure 3 illustrates that if the current proposals are adopted, all else being equal, we would fail DSCR in 2016 and continue to fail throughout the term of the loan.

FIGURE 3



These figures do not represent wild exaggerations or assumptions. In fact, we have specifically excluded any projected impact associated with intercarrier compensation reform proposals, as contained in the USF-ICC Reform NPRM. However, intercarrier compensation is a significant revenue source for Hill Country and, were the Commission to transition to a bill-and-keep mechanism during the projected periods, the above projections would be even more dire.

Nevertheless, the above projections do not represent a "business-as-usual" approach either. They represent considerable effort on our part to reduce costs in an effort to comply with our loan agreement. While Hill Country is already operating with a lean workforce, the above projections assume that we will eliminate 35% of our current workforce over the next seven years in response to the FCC's USF reform efforts. These are real people with real families. As one of the largest employers in the area, such a drastic reduction in workforce will have very real impacts on our community as those cost cutting measures trickle down into the local economy, causing further job loss. Additionally, with such a drastic reduction in workforce, our ability to provision quality telecommunications and broadband services in a timely manner to our members will be severely impacted, possibly putting us in jeopardy of meeting our state commission's service quality standards. However, even with such draconian reductions, we will still fail to meet our loan obligations, as addressed above.

V. CONCLUSION

Hill Country recognizes that the Commission is likely headed down a path to significantly reform the USF programs. However, as the FCC unwinds the current USF mechanism, we encourage the Commission to recognize that rural ILECs have made considerable investments to deploy broadband services throughout our service areas under the current rate-of-return regulatory compact. As the Commission weighs the benefits of price cap regulation for small rate-of-return providers, I hope that it will consider the impact that such regulation has had for rural portions of the United States. Have price cap carriers made heavy investments to deploy broadband service to rural areas? Have these communities benefitted from their provider's price cap election or has it caused these providers to limit their investment to the most urban communities with the highest returns? If the Commission modifies the USF mechanisms to increase the levels of support provided to price cap carriers, what assurance is there that these additional revenues will not end up on Wall Street, instead of on Main Street?

If the Commission insists on making significant changes to the USF programs, it must do so in such a way that the transition to the next form of USF is long enough to allow rate-of-return providers to avoid defaulting on their loan agreements. It would be a shame if the reforms adopted by the FCC in association with its National Broadband Plan actually cause existing broadband customers to lose broadband services.

Respectfully submitted,

April 18, 2011

HILL COUNTRY TELEPHONE COOPERATIVE, INC.

By: *<u>/s/ Delbert Wilson</u>*
Delbert Wilson, General Manager
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ATTACHMENT 1

Hill Country

SAC ID: 442086
NPRM Proposed Changes

FCC proposes to eliminate (or reduce) support for corporate expenses in all funding mechanisms.

High Cost Loop Fund Changes:

Current HCL Support*			$4,566,105
Reduction due to algorithm change	(stand alone)	($642,540)	
Reduction due to elimination of Corp. Exp.	(stand alone)	($1,197,217)	
Combined effect (run together)			($1,680,128)
Increase due to resizing of NACPL	(assumed decrease of 27% to NACPL)		$1,518,959
Revised HCLF Support			$4,404,936

FCC proposes to reduce the reimbursement percentages for high-cost loop support from the current percentages of 65% for qualifying study area loop costs between 115 - 150% and 75% for qualifying study area loop costs in excess of 150% to 55% and 65%, respectively.

Local Switching Support Changes:

Current LSS	$576,808
Reduction due to elimination of Corp. Exp.	($63,305)
Revised LSS Support	$513,503

The FCC seeks to eliminate local switching support, or combine this program with high-cost loop support. Alternatively, the FCC would combine the LSS program into the HCLS program—creating a LHCS hybrid, using an algorithm similar to HCLS.

Interstate Common Line Support Changes:

Current ICLS	$3,305,502
Reduction due to elimination of Corp. Exp.	($555,640)
Revised ICLS Support	$2,749,862

Safety Net Additive

Current Safety Net Support	$432,120
Reduction due to elimination of Safety Net	($432,120)
Revised Safety Net	$0

The FCC seeks to eliminate safety net additive support immediately, or implement a phase-down over possibly three years

	Original	Revised	Impact	% Change
HCLF	$4,566,105	$4,404,936	($161,169)	-3.53%
LSS	$576,808	$513,503	($63,305)	-10.98%
ICLS	$3,305,502	$2,749,862	($555,640)	-16.81%
Safety Net	$432,120	$0	($432,120)	-100.00%
Totals	$8,880,535	$7,668,301	($1,212,234)	-13.65%
Loops	15,767	15,767	15,767	
USF/Loop/Year	$563.24	$486.35	($76.88)	-13.65%

*Current NACPL of $458.36

ATTACHMENT 2

A. Consolidated Balance Sheets

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Hill Country Telephone Cooperative
Consolidated Balance Sheets

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Current Assets:										
Cash and cash equivalents										
Certificates of deposit										
Marketable securities										
Accounts receivable - telecommunications										
Accounts receivable - other										
Accounts receivable - affiliates										
Accounts receivable - other										
Interest receivable										
Materials and supplies										
Prepayments										
Deferred income taxes										
Total Current Assets										
Investments and Other Assets:										
Notes receivable										
Affiliate notes receivable										
Investment in lenders										
Investment in partnership										
Investment in corporatations										
Investment in subsidiary										
Goodwill										
Deferred charges										
Deferred income taxes										
Total Investments and Other Assets										
Property, Plant and Equipment:										
Telecommunications plant in service										
Telecommunications plant under construction										
Nonoperating plant, net										
Total PP&E										
Less: Accumulated depreciation										
Net Plant, Property and Equipment										
Amortizable assets, net of amortization										
Total Assets										
Current Liabilities:										
Current maturities of existing long-term debt										
Current maturities of new RUS debt										
Current maturities of new private debt										
Deferred revenue - current portion										
Accounts payable - trade										
Accounts payable - affiliates										
Accounts payable - other										
Line of Credit										
Taxes accrued										
Other accrued liabilities										

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Hill Country Telephone Cooperative
Consolidated Balance Sheets

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Deferred income taxes										
Customer deposits										
Total Current Liabilities										
Long-Term Debt, Less Current Maturities:										
Existing long-term debt										
New RUS debt										
New private debt										
Affiliate notes										
Total Long-Term Debt										
Other Liabilities and Deferred Credits:										
Deferred income taxes										
Deferred revenue - long-term portion										
Other deferrals										
Total Other Liabilities										
Total Liabilities										
Minority Interest in Partnership										
Stockholders' Equity										
Stock										
Additional paid-in capital										
Patronage capital										
Other capital										
Retained earnings										
Accumulated comprehensive income										
Total Stockholders' Equity										
Total Liabilities and Stockholders' Equity										

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ATTACHMENT 2

B. Consolidated Statements of Income

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Hill Country Telephone Cooperative
Consolidated Statements of Income

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Operating revenues:										
Local voice services revenue										
Network access revenue										
USF revenue										
Toll/Long distance revenue										
Broadband revenue										
Dial-up revenue										
Video revenue										
Satellite revenue										
CPE Sales revenue										
Broadband - CLEC revenue										
Wireless Internet revenue										
Security Systems revenue										
Computer Repair revenue										
Leasing Revenue revenue										
Cellular Service revenue										
Business System revenue										
Other operating revenue										
Revenue amortization										
Less uncollectible revenue										
Total Operating Revenues										
Operating expenses:										
Internet expense										
Programming expense										
Satellite COGS										
CPE Sales COGS										
Broadband - CLEC COGS										
Wireless Internet COGS										
Security Systems COGS										
Computer Repair COGS										
Leasing Revenue COGS										
Cellular Service COGS										
Business System COGS										
Plant specific operations expense										
Utilities expense										
Network maintenance expense										
Access expense										
Depreciation and amortization										
Sales and marketing expense										
Customer operations expense										
Corporate operations expense										
Property tax expense										
Total Operating Expenses										
Operating Income										
EBITDA										
Other Income (expense):										
Dividend income										
Interest income										
Gains (losses) from disposition of assets										

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Hill Country Telephone Cooperative
Consolidated Statements of Income

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Nonoperating income (loss)										
Income from subsidiaires										
Income from partnerships										
Earnings from investment securities										
Total Other Income										
Fixed charges:										
Interest on existing long-term debt										
Interest on new RUS debt										
Interest on new private debt										
Amortization of debt issuance expense										
Interest charged to construction - credit										
Interest on customer deposits										
Total Fixed Charges										
Income before Taxes on Income				REDACTED						
Taxes on Income										
Margins before minority interest										
Minority interest in partnership										
Net income before comprehensive income										
Other comprehensive income (loss)										
Comprehensive Income										